

FDIC State Profile

Winter 2005

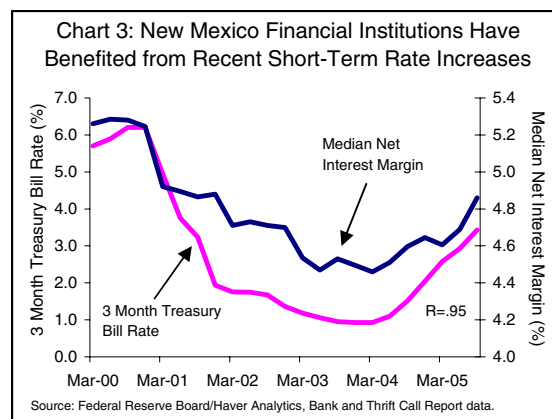
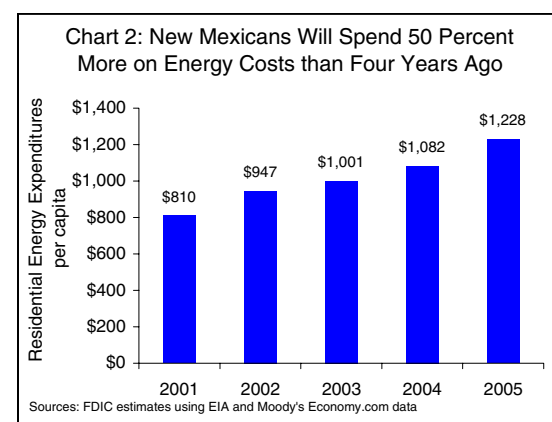
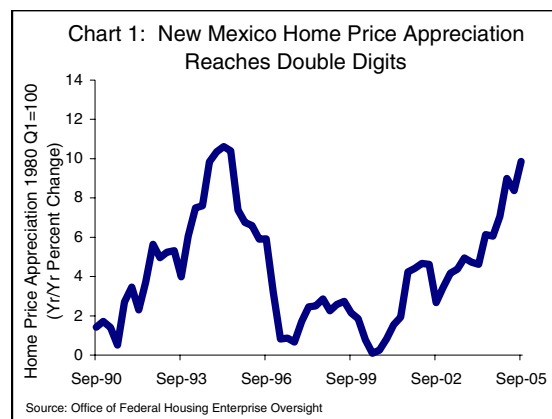
New Mexico

New Mexico: A Tale of Two Wages

- New Mexico did not experience net job losses during the 2001 recession as did a majority of other states. Additionally, annual job growth since the U.S. recession ended (fourth quarter 2001) has been much faster in New Mexico than the nation, 1.54 versus 0.61 percent, respectively.
- Although New Mexico's job growth is favorable, the majority of jobs (69 percent) being added are in low wage employment sectors (below the state average annual wage of \$35,456). This has included employment increases in the sectors of construction; trade, transportation, and utilities; education and health services; leisure and hospitality; and other services.
- Although the mining, financial activities and professional and business services sectors have added higher wage jobs, the main source of such job gains is increased government employment.
- When government employment is excluded, New Mexico has sustained a net loss of high wage jobs since the U.S. recession ended largely due to job losses in the information and manufacturing employment sectors. These job losses illustrate the effect of the broader cost pressures from globalization on the manufacturing and information sectors.

New Mexico home price appreciation reaches highest level since the early nineties.

- In second quarter 2005, New Mexico home price appreciation broke double digit gains for the first time since the early nineties and continued to accelerate into third quarter 2005 (see Chart 1).
- The double digit home price appreciation is the product of several years of steady growth and highlights how population in-migration and strong job growth have fueled home prices in the state.
- Comparatively, real estate prices are favorable and many retirees are choosing New Mexico rather than higher priced real estate in California, Florida, and Arizona. The



outlook for New Mexico home prices is further bolstered by continuing high levels of existing single family home sales. Construction employment now accounts for 15 percent of new jobs since the U.S. recession ended.

Rising fuel prices squeeze New Mexico consumers.

- Rising fuel prices in New Mexico have the combined effect of increasing mining employment while constraining consumer spending.
- The vast majority of New Mexicans face a winter season of rising energy costs as a result of tight supplies following hurricanes Katrina and Rita, strong demand, and the expectation of harsher winter weather in the U.S. Midwest and Northeast. Residential energy expenditures in New Mexico, on a per capita basis, are estimated to rise 13 percent in 2005, and will have risen 50 percent from just four years ago (see Chart 2).

New Mexico insured institution financial performance remains strong.

- The median return on assets ratio reported by institutions headquartered in New Mexico for the nine months ending September 30, 2005, was 1.32 percent, among the highest level in the past ten years and 25 basis points above the national median.
- Past-due and charge-off rates continued to drop to the lowest levels in a decade. Improving credit quality allowed provision expense to remain at decade lows; however, there is little room for further declines.

Short-term interest rate increases have benefited financial institutions so far, but concerns remain.

- There is a significant positive correlation between short-term interest rates and New Mexico financial institution median net interest margins, suggesting that the state's institutions have been relatively asset sensitive and benefited from recent short-term interest rate hikes (see Chart 3).
- However, longer-term rates have remained fairly level, resulting in a flattening yield curve that could become problematic. The spread between ten-year U.S. Treasury notes and three-month U.S. Treasury bills is the lowest level since March 31, 2001, just prior to the last recession. Since a flattening yield curve has historically been a problem for bank earnings, recent decreases in spread imply increasing pressure on future margins.
- According to a recent national survey of bank executives, 56 percent said they expect interest rates to have a

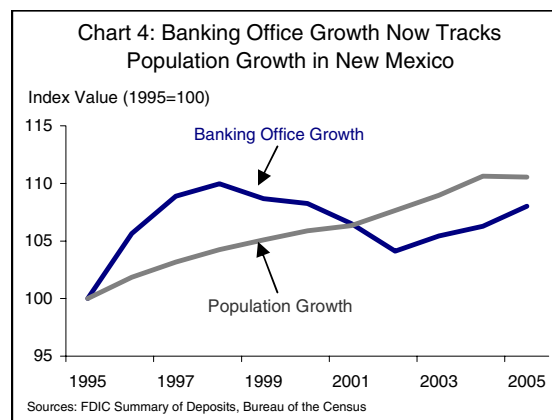
negative impact on earnings in the near term, up from 31 percent a year earlier.¹

New Mexico branch growth returns.

- New Mexico branch growth is tracking population gains (see Chart 4) after small declines in 2001 and 2002. The number of persons per branch location was approximately 3,820 as of June 30, 2005, 20 percent above the U.S. ratio. Deposit growth has kept pace with the U.S. rate over the past several years.

An expanding New Mexico real estate market is prompting strong demand for construction lending.

- Driven by solid employment gains and favorable financing rates, New Mexico commercial and residential building permits remain exceptionally vibrant, contributing to rapid growth in construction lending concentrations. As of third quarter 2005, construction and development loans at the state's insured institutions represented 16 percent of total loans, more than twice the national rate.
- Rapid growth also led New Mexico insured institutions to a record level for commercial real estate (CRE) lending equal to 29 percent of total loans, more than twice the national rate in the third quarter. Performance of CRE loans remains very good with reported past-due and charge-off rates among New Mexico's lowest in a decade and below the national averages.



¹ American Banker Financial Services Executive Forum, Third quarter 2005.

New Mexico at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.1%	2.1%	2.0%	2.0%	1.2%
Manufacturing (4%)	0.5%	-0.6%	-1.8%	-1.6%	-5.0%
Other (non-manufacturing) Goods-Producing (9%)	7.6%	7.9%	7.3%	6.2%	2.6%
Private Service-Producing (62%)	1.6%	1.6%	1.9%	1.8%	1.2%
Government (25%)	1.7%	2.0%	1.3%	1.6%	2.2%
Unemployment Rate (% of labor force)	5.6	5.9	5.7	5.7	5.9

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	7.5%	6.2%	6.4%	4.0%
Single-Family Home Permits	7.7%	0.8%	1.0%	9.9%	14.1%
Multifamily Building Permits	217.1%	-57.6%	-88.3%	-27.2%	-10.2%
Existing Home Sales	6.9%	7.3%	22.4%	16.9%	11.3%
Home Price Index	12.7%	12.2%	9.0%	7.6%	5.1%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.25	5.60	4.57	5.05	5.25

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	56	57	58	58	60
Total Assets (in millions)	16,514	16,236	15,561	15,822	20,529
New Institutions (# < 3 years)	0	1	1	0	1
Subchapter S Institutions	26	26	24	24	24

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.33	1.26	1.43	1.23	1.58
ALLL/Total Loans (median %)	1.33	1.36	1.32	1.37	1.32
ALLL/Noncurrent Loans (median multiple)	2.83	2.73	1.85	2.03	1.64
Net Loan Losses / Total Loans (median %)	0.07	0.02	0.07	0.18	0.14

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	8.76	8.77	8.73	8.53	8.47
Return on Assets (median %)	1.33	1.27	1.11	1.09	1.14
Pretax Return on Assets (median %)	1.84	1.78	1.59	1.50	1.52
Net Interest Margin (median %)	4.95	4.76	4.64	4.65	4.50
Yield on Earning Assets (median %)	6.43	6.22	5.81	5.75	6.07
Cost of Funding Earning Assets (median %)	1.67	1.46	1.24	1.23	1.39
Provisions to Avg. Assets (median %)	0.08	0.12	0.12	0.13	0.14
Noninterest Income to Avg. Assets (median %)	0.79	0.79	0.84	0.83	0.90
Overhead to Avg. Assets (median %)	3.36	3.38	3.28	3.24	3.46

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	61.3	60.5	61.7	59.1	58.5
Noncore Funding to Assets (median %)	19.8	18.2	20.7	20.0	20.0
Long-term Assets to Assets (median %, call filers)	18.1	19.9	19.7	19.6	18.9
Brokered Deposits (number of institutions)	7	7	8	7	9
Brokered Deposits to Assets (median % for those above)	3.2	3.2	3.0	3.1	1.3

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	88.4	96.5	115.2	108.1	110.8
Commercial Real Estate	272.0	238.3	251.9	244.1	231.4
Construction & Development	53.4	49.3	43.6	49.5	43.2
Multifamily Residential Real Estate	7.4	7.6	7.0	6.8	4.5
Nonresidential Real Estate	155.2	137.8	159.1	156.0	160.3
Residential Real Estate	132.5	125.5	135.3	136.4	135.0
Consumer	32.0	33.5	41.6	40.1	48.2
Agriculture	15.3	17.1	15.9	15.0	18.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Albuquerque, NM	24	8,645	< \$250 million	40 (71.4%)
Santa Fe, NM	11	1,870	\$250 million to \$1 billion	11 (19.6%)
Las Cruces, NM	15	1,310	\$1 billion to \$10 billion	5 (8.9%)
Farmington, NM	7	971	> \$10 billion	0 (0%)